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ANNUAL REPORT
1967

ALBERTA NATURAL GAS COMPANY

ALBERTA NATURAL GAS COMPANY

8th Floor, 140 - 6th Avenue S.W., Calgary, Alberta

1967 ANNUAL REPORT

DIRECTORS:

- S. M. BLAIR, *Toronto, Ontario*
Vice-Chairman, Canadian Bechtel Limited
- S. R. BLAIR, *Calgary, Alberta*
President and General Manager, Alberta and Southern Gas Co. Ltd.
- R. H. GERDES, *San Francisco, California*
Chairman and Chief Executive Officer, Pacific Gas and Electric Company
- R. A. MacKIMMIE, Q.C., *Calgary, Alberta*
Partner, MacKimmie, Matthews, Wood, Phillips and Smith
- C. O. NICKLE, *Calgary, Alberta*
President, C. O. Nickle Publications Co. Ltd., Calgary, Alberta
- R. H. PETERSON, *San Francisco, California*
Senior Vice-President and General Counsel, Pacific Gas and Electric Company
- S. L. SIBLEY, *San Francisco, California*
President and Chief Operating Officer, Pacific Gas and Electric Company
- C. P. SMITH, *San Francisco, California*
President and General Manager, Pacific Gas Transmission Company
- R. L. WINTON, *Calgary, Alberta*
Vice-President and Secretary, Alberta and Southern Gas Co. Ltd.

OFFICERS:

- R. H. GERDES, *Chairman of the Board*
- S. L. SIBLEY, *Vice-Chairman of the Board*
- C. P. SMITH, *President*
- S. R. BLAIR, *Vice-President and General Manager*
- K. C. CHRISTENSEN, *Vice-President*
- R. H. PETERSON, *Vice-President*
- E. H. FISHER, *Vice-President*
- R. L. WINTON, *Vice-President and Secretary*
- C. K. ORR, *Treasurer and Comptroller*
- G. D. NICHOLS, *Assistant Secretary*

ALBERTA NATURAL GAS COMPANY

Architect's sketch of Head Office building now under construction in Calgary.
Completion scheduled for March, 1969.



TO OUR SHAREHOLDERS:

On behalf of the Board of Directors we are pleased to present the 1967 Annual Report of Alberta Natural Gas Company.

The year 1967 was one of considerable progress for the Company, with gas transmission service and net income each recording an increase greater than such increases in previous years.

FINANCIAL

The net income for 1967 was \$1,156,000, equivalent to \$1.36 per outstanding share (an increase of 8% over \$1.25 per share in 1966). The increase in net income was caused principally by the increase in rate base which resulted from the installation of additional compressor facilities during 1966 and 1967 to deliver the increased export sales volumes of Alberta and Southern Gas Co. Ltd.

In recognition of the higher level of earnings your directors increased the quarterly dividend from 20¢ to 25¢ per share commencing with the March dividend in 1967.

The Company will be required to incur some additional debt to complete its construction program contracted for 1968. If the Company experiences the high interest cost now prevailing in new borrowings, this may affect the net income which would otherwise be derived from additions to its rate base.

GAS DELIVERIES

Deliveries of gas at the international boundary near Kingsgate, B.C. for Alberta and Southern Gas Co. Ltd. increased by 20% over the previous year to an average daily delivery of 565 million cubic feet. Deliveries at the same point for its other customer, Westcoast Transmission Company Limited, experienced a slight increase in 1967 to an average daily delivery of 130 million cubic feet. Deliveries for Westcoast Transmission to the distributor serving the East Kootenay area of B.C. averaged 3 million cubic feet per day.

The increase in deliveries at Kingsgate for Alberta and Southern occurred pursuant to that Company's authorization to export additional quantities of gas from Canada commencing November 1, 1966 and November 1, 1967. The full effect of the second of these steps will be evident in the operations for the year 1968.

The 1966 Annual Report mentioned a pending appeal before the United States Court of Appeals against one of the authorizations required for those export increases by Alberta and Southern. This appeal was denied in 1967.

During 1967, Alberta and Southern concluded a contract with Inland Natural Gas Co. Ltd. for the sale of gas to supply Inland's East Kootenay area. The commencement of deliveries under the contract will be deferred until the British Columbia Public Utilities Commission authorizes Inland to construct the connecting pipeline.

July 68
- not rec'd as yet
would think so but no close information

CONSTRUCTION OF TRANSMISSION FACILITIES

A 12,100 horsepower centrifugal compressor unit was installed at the Crowsnest Compressor Station during 1967 to transport the 103 million cubic feet per day increase for Alberta and Southern that became effective on November 1, 1967. The installation of this unit and a small expansion of the Kingsgate Meter Station to measure the increased gas delivery quantities cost \$2,600,000 in total.

- 67 program

FUTURE EXPANSION OF TRANSMISSION SERVICE

In April, 1967 the National Energy Board of Canada issued a licence to Alberta and Southern authorizing further increases of an average of 107 million cubic feet per day commencing November 1, 1968 and of 107 million cubic feet per day commencing November 1, 1969 in the export of gas to Pacific Gas Transmission.

At the same time the National Energy Board authorized the Company to install the necessary facilities to transport the additional volumes.

Late in 1966 Pacific Gas Transmission applied to the United States Federal Power Commission for the required authorization to import the additional quantities and to construct the necessary facilities in the United States. This application, in 1967, was consolidated by the Federal Power Commission for purposes of hearing and decision with an application by El Paso Natural Gas Company to deliver additional gas from United States gas sources to markets in California. Hearings on the consolidated proceeding commenced in October, 1967, closed in February, 1968, and are awaiting the initial decision of the Examiner.

Assuming final Federal Power Commission approval, the Company proposes to construct a new compressor station near Elko, B.C. The estimated cost of this facility is in the order of \$3,000,000, and substantial commitments in connection with the equipment required have been made at the present time.

- still working

The Company is also participating with Alberta and Southern in studies of the feasibility and the timing of further increases in gas export quantities.

OFFICE BUILDING CONSTRUCTION

Early in 1968 the Company entered into a contract for the construction of an office building in downtown Calgary to serve as the head office of Alberta Natural and Alberta and Southern. In addition some space will be leased to others. The architect's sketch of the building appears elsewhere in this report. The \$1,750,000 project is scheduled for completion in the spring of 1969.

The building will be located on the site of an historic Calgary residence, the Peter Prince home. In 1967, as a joint Centennial project, Alberta and Southern and Alberta Natural undertook to provide the funds for the removal of the house from its former site and its restoration at Heritage Park in Calgary.

LIQUIDS EXTRACTION PLANT

The Company is negotiating contracts with Dome Petroleum Limited and Pan American Petroleum Corporation and with Alberta and Southern towards participation by the Company in a program to remove hydrocarbon liquids from Alberta and Southern's gas stream at a new extraction plant which is planned to be constructed west of Calgary. The Company's intended participation in the program will include ownership of the extraction plant and the holding of a business interest in the marketing of the liquid products, which will be accomplished through new facilities planned by Dome and Pan American. This entire program remains subject to the completion of contracts and will also be subject to the obtaining of requisite regulatory authorizations.

OFFICERS

Mr. G. Douglas Nichols was appointed Assistant Secretary of the Company during the year. There were no other changes in executive officers.

Robert W. Leland

Chairman of the Board

Charles Pennington Smith

President

ref the liquid / gas

*improvements
to be realized
after liquid
moved
then new
facilities
(lines & fractionation)*

ALBERTA NATURAL GAS COMPANY

STATEMENT OF INCOME

FOR THE YEAR ENDED DECEMBER 31, 1967
(with 1966 figures for comparison)

	1967	1966
OPERATING REVENUE:		
Transportation of gas	\$5,036,000	\$4,550,000
OPERATING EXPENSES:		
Operating and maintenance	1,030,000	824,000
Administrative, including directors' fees 1967 - \$2,400; 1966 - \$3,300	243,000	193,000
Depreciation (Note 1)	1,136,000	1,161,000
Property taxes	346,000	250,000
Income and special refundable taxes (Note 5)	45,000	43,000
Total operating expenses	2,800,000	2,471,000
OPERATING INCOME	2,236,000	2,079,000
OTHER INCOME	75,000	193,000
TOTAL INCOME BEFORE INCOME DEDUCTIONS	2,311,000	2,272,000
INCOME DEDUCTIONS:		
Interest expense	1,201,000	1,252,000
Interest charged to construction (credit)	(57,000)	(60,000)
Other	11,000	11,000
Total income deductions	1,155,000	1,203,000
NET INCOME FOR THE YEAR (Note 5)	\$1,156,000	\$1,069,000

The accompanying notes are an integral part of the financial statements.

ALBERTA NATURAL GAS COMPANY

STATEMENT OF RETAINED EARNINGS

FOR THE YEAR ENDED DECEMBER 31, 1967

(with 1966 figures for comparison)

	1967	1966
BALANCE at beginning of the year	\$2,453,000	\$2,066,000
Net income for the year	1,156,000	1,069,000
	<u>3,609,000</u>	<u>3,135,000</u>
Dividends paid	852,000	682,000
BALANCE at end of the year (Note 2)	<u>\$2,757,000</u>	<u>\$2,453,000</u>

The accompanying notes are an integral part of the financial statements.

AUDITORS' REPORT

To the Shareholders of
ALBERTA NATURAL GAS COMPANY:

We have examined the balance sheet of Alberta Natural Gas Company as at December 31, 1967 and the statements of retained earnings, income and source and application of funds for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion these financial statements present fairly the financial position of the company as at December 31, 1967 and the results of its operations and the source and application of its funds for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
January 31, 1968.

DELOITTE, PLENDER, HASKINS & SELLS
Chartered Accountants

ALBERTA NATURAL GAS

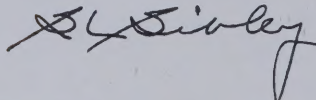
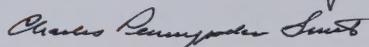
(Incorporated by Special Act)

BALANCE SHEET AS AT

(with 1966 figures)

ASSETS		1967	1966
PLANT, PROPERTY AND EQUIPMENT — at cost			
(Note 1)		\$38,886,000	\$35,776,000
Less accumulated depreciation		7,006,000	6,137,000
Net plant, property and equipment		<u>31,880,000</u>	<u>29,639,000</u>
CURRENT ASSETS:			
Cash and interest bearing deposits		668,000	2,691,000
Accounts receivable — affiliates and others		352,000	385,000
Materials and supplies — at cost		219,000	111,000
Prepayments		2,000	14,000
Total current assets		<u>1,241,000</u>	<u>3,201,000</u>
DEFERRED CHARGES:			
Unamortized organization and capital stock			
expense		147,000	154,000
Unamortized debt expense		85,000	90,000
Other		3,000	2,000
Total deferred charges		<u>235,000</u>	<u>246,000</u>
TOTAL		<u>\$33,356,000</u>	<u>\$33,086,000</u>

Approved on behalf of the Board:

 Director Director

The accompanying notes are an integral part of this statement.

AS COMPANY

e Parliament of Canada)

ECEMBER 31, 1967

r comparison)

SHAREHOLDERS' EQUITY AND LIABILITIES

	1967	1966
SHAREHOLDERS' EQUITY:		
Capital stock:		
Authorized — 1,250,000 shares of \$10 par value each		
Issued — 852,016 shares	\$ 8,520,000	\$ 8,520,000
Retained earnings — (Note 2)	2,757,000	2,453,000
Total shareholders' equity	<u>11,277,000</u>	<u>10,973,000</u>
LONG-TERM DEBT (Note 3):		
5¾% First Mortgage Pipe Line Bonds, Series A	20,109,000	21,196,000
Less due within one year	1,087,000	1,087,000
Net long-term debt	<u>19,022,000</u>	<u>20,109,000</u>
CURRENT LIABILITIES:		
Notes payable to banks — unsecured	750,000	—
Accounts payable	949,000	635,000
Interest accrued	242,000	254,000
Long-term debt due within one year	1,087,000	1,087,000
Total current liabilities	<u>3,028,000</u>	<u>1,976,000</u>
CONTRIBUTIONS IN AID OF CONSTRUCTION	<u>29,000</u>	<u>28,000</u>
TOTAL	<u>\$33,356,000</u>	<u>\$33,086,000</u>

art of the financial statements.

ALBERTA NATURAL GAS COMPANY

STATEMENT OF SOURCE AND APPLICATION OF FUNDS

FOR THE YEAR ENDED DECEMBER 31, 1967

(with 1966 figures for comparison)

	1967	1966
FUNDS PROVIDED:		
Net income for the year	\$1,156,000	\$1,069,000
Add non cash items:		
Depreciation	1,136,000	1,161,000
Other income deductions	<u>11,000</u>	<u>11,000</u>
Total funds provided from operations	2,303,000	2,241,000
Proceeds from disposal of plant, property and equipment	35,000	3,000
Miscellaneous items	<u>2,000</u>	<u>15,000</u>
Total funds provided	<u>2,340,000</u>	<u>2,259,000</u>
 FUNDS APPLIED:		
Retirement of long-term debt	1,087,000	1,087,000
Additions to plant, property and equipment	3,413,000	3,093,000
Dividends	<u>852,000</u>	<u>682,000</u>
Total funds applied	<u>5,352,000</u>	<u>4,862,000</u>
DECREASE IN WORKING CAPITAL FOR THE YEAR	<u><u>\$3,012,000</u></u>	<u><u>\$2,603,000</u></u>

The accompanying notes are an integral part of the financial statements.

ALBERTA NATURAL GAS COMPANY

NOTES TO THE FINANCIAL STATEMENTS

DECEMBER 31, 1967

NOTE 1 — PLANT, PROPERTY AND EQUIPMENT:

The gas transmission plant consists of facilities for the transportation of gas owned by the gas shippers, Alberta and Southern Gas Co. Ltd. and Westcoast Transmission Company Limited.

The gas transportation contract with the gas shippers provides that the Company will be reimbursed for all operating expenses, depreciation and property and income taxes (see Note 5) together with an annual return on the unrecovered investment. The contract provides for amortization of the cost of plant, less estimated net salvage, to be calculated on a straight-line basis over the remaining term of the latest expiring licence to export gas from Canada (presently the expiry date of the latest operating licence is October 31, 1989).

NOTE 2 — RETAINED EARNINGS:

Restrictions on the payment of cash dividends under certain circumstances are contained in the Deed of Mortgage and Trust securing the Company's bonds. At December 31, 1967 \$530,000 was restricted in this manner.

NOTE 3 — LONG-TERM DEBT:

The bonds outstanding are payable in United States dollars. As provided by the gas transportation contract the Company is required to accept from the gas shippers in substitution for an equal number of Canadian dollars the number of United States dollars required to make the annual principal and interest payments on the bonds. Accordingly, the principal amount of the bonds and interest expense are recorded in the Company's accounts on the basis of the two currencies being equal in value.

Sinking fund payments on the bonds commenced in October, 1963 and continue at an annual rate of \$1,087,000 until April, 1986. The Deed of Mortgage and Trust provides for increased sinking fund payments if a Certificate of Firm Gas Supply indicates exhaustion of firm gas supply earlier than April 15, 1986. The bonds are also subject to redemption at the Company's option at 105.75% of the principal on or before April 15, 1971 and at declining rates each year until April 15, 1985.

Substantially all of the properties of the Company and the gas transportation contract are mortgaged under the Deed of Mortgage and Trust securing the bonds.

NOTE 4 — COMMITMENTS:

At December 31, 1967 the Company had entered into contracts relating to its proposed 1968 pipeline construction program aggregating \$1,510,000. The proposed new facilities are required to transport additional volumes of gas for Alberta and Southern Gas Co. Ltd. in late 1968 and construction is contingent upon Pacific Gas Transmission Company obtaining United States regulatory approval to import the gas from Canada. These contracts contain provisions for their cancellation upon payment of specified sums on cancellation before given dates.

Subsequent to December 31, 1967 the Company entered into a contract for approximately \$1,500,000 relating to construction of an office building in Calgary, Alberta.

NOTE 5 — INCOME TAXES:

Income taxes are contractually reimbursable expenses as explained in Note 1 and accordingly the amount of income taxes paid during the year or deferred to future years has no effect on the net income of the Company. To properly match the income tax expense and the offsetting reimbursement from the gas shippers it is the Company's practice to record these items in the accounts in the accounting period that the tax liability is paid. It is also the Company's practice to claim for taxation purposes capital cost allowance in excess of depreciation recorded in the accounts and deductions for interest and certain other expenses capitalized. During 1967 an income tax liability of \$27,000 was determined on reassessment which was paid and reimbursed by the gas shippers in accordance with the terms of the gas transportation contract. The Company has given notice of objection to this reassessment.

Special refundable tax payments made in 1966 and 1967 were also reimbursed by the gas shippers and accordingly included as both revenue and expense in those years. The amounts to be refunded (including interest) when received by the Company will be repaid to the gas shippers.

ALBERTA NATURAL GAS COMPANY

AUDITORS

Deloitte, Plender, Haskins & Sells,
Chartered Accountants, Calgary, Alberta

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company,
Montreal, Toronto, Winnipeg, Calgary, Vancouver

Shares listed on the Toronto Stock Exchange

ANNUAL MEETING

The Annual Meeting of Shareholders will be held in the Garibaldi Room of the Hotel Vancouver, Vancouver, British Columbia on Thursday the 25th day of April, 1968 at 2:00 p.m. The notice of meeting and proxy form are being mailed with this report to all shareholders of record. Notice of change of shareholder's address should be sent to the Transfer Agent.

